92-1829

No.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1992

LINDY PEN COMPANY, INC.
and BLACKFEET PLASTICS, INC.,
Petitioners,
vs.
BIC PEN CORPORATION,
Respondent.

PETITION FOR WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

PETITION FOR WRIT OF CERTIORARI

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QUESTION PRESENTED

Where goods are distributed nationwide in telephone marketing, can a registered trademark owner who has demonstrated by "credible proof" both infringement and damages existing in that telephone market, be completely denied any monetary damages, effectively defeating its trademark rights, simply because the registered owner has not met a court imposed evidentiary burden requiring the registered owner to apportion the infringing sales bearing the mark in that telephone market from all other sales, also bearing the infringing mark, which are not deemed infringing?

PARTIES

In accordance with Rule 29.1, Blackfeet Plastics, Inc. is a wholly owned subsidiary of the Blackfeet Indian Writing Company of Browning, Montana, which in turn is owned by the Blackfeet Tribal Council, the governing body for the Blackfeet Tribe of Native Americans.

Lindy Pen Company, Inc. is a trade name owned by the Blackfeet Indian Writing Company.

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No. 92-

In The

SUPREME COURT OF THE UNITED STATES

October Term, 1992

LINDY PEN COMPANY, INC. and
BLACKFEET PLASTICS, INC.,
Petitioners,

vs.

BIC PEN CORPORATION,
Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

Petitioners hereby request that this Court issue a writ of certiorari to review a judgment of the United States Court of Appeals for the Ninth Circuit entered January 14, 1993 which is in direct conflict with a decision of the Sixth Circuit Court of Appeals entered on August 20, 1991.

OPINIONS BELOW

The opinion of the United States Court of Appeals for the Ninth Circuit, which is reported at 982 F.2d 1400 (9th Cir. 1993) and which is the third opinion of that Circuit in this matter, is reprinted as Appendix A, pp. A-1 - A-19 of this petition.

The first opinion of the United States Court of Appeals for the Ninth Circuit, reported at 725 F.2d 1240 (9th Cir. 1984) is reprinted as Appendix B. The second opinion of that court, reported at 796 F.2d 254 (9th Cir. 1986) is reprinted as Appendix C. The unpublished Supplemental Order Re Damages of the United States District Court for the Central District of California is reprinted as Appendix D.

JURISDICTION

The judgment of the Ninth Circuit was entered in this action on January 14, 1993. Neither party has requested rehearing.

The jurisdiction of this Court is invoked pursuant to 28 U.S.C. §1254(1).

STATUTE INVOLVED

This petition involves remedies for trademark infringement. The relevant statute for such remedies, 15 U.S.C. §1117, is re-printed as Appendix E.

STATEMENT OF THE CASE

Introduction

This case involves a conflict among the circuits with regard to a basic right of the holders of registered trademarks under the Lanham Trademark Act, 15 U.S.C. §§1051-1127. In the decision from which Petitioners seek a writ of certiorari, the Ninth Circuit ruled that remedial damages may be denied even where there have been findings (1) that defendant's unauthorized use of the plaintiffs' registered trademark in certain circumstances was an infringing use, (2) that defendant's infringing use of the mark caused customers to switch their purchases from plaintiffs' product to the defendant's product, and (3) that the resulting switched and diverted sales caused actual damages to the plaintiffs. Despite these findings, the Ninth Circuit refused to award damages because the plaintiffs were unable to carry the burden of specifically isolating the total number of sales where customers were likely confused, from those sales where, despite defendant's infringing use of plaintiffs' mark, customers were nonetheless able to distinguish between plaintiffs' and defendant's goods.

In denying Petitioners any damage, the Ninth Circuit held that it is the trademark registrant who bears the burden of making such apportionment between the infringer's offending and non-offending sales. The Court reached this result even though such an apportionment could not have been made from the infringer's books and records.

The Ninth Circuit's ruling stands in stark contrast

to the Sixth Circuit's decision in *Wynn Oil Co. v. American Way Service Corp.*, 943 F.2d 595 (6th Cir. 1991), in which the court ruled that once the trademark owner demonstrated the fact of damages, the infringer bore the burden of distinguishing between offending and non-offending sales income. In so ruling, the Sixth Circuit implicitly recognized that where an infringer may frustrate remedies by making the magnitude of damages difficult, substantive trademark protection may be effectively extirpated.

The District Court Case and Previous Ninth Circuit Opinions

This trademark infringement action was originally brought in the United States District Court for the Central District of California in 1980. Plaintiff Lindy Pen Company, Inc. ("Lindy") charged Bic Pen Corporation ("Bic") with infringement of Lindy's federally registered and incontestable trademark "Auditor's" for ballpoint pens. Lindy sought injunctive relief and damages pursuant to 15 U.S.C. §§1114(1), 1115, 1116 and 1117. Blackfeet Plastics, Inc. ("Blackfeet"), a company owned and operated by the Blackfeet Indian Nation, was added as party plaintiff in 1981 when it purchased Lindy's assets, including the relevant ballpoint pen line, associated trademarks and company name.

Both Blackfeet and Bic manufacture ballpoint pens. In 1955, Lindy adopted the trademark "Auditor's" for a line of its ballpoint pens. In 1966, Lindy registered its trademark on the Principal Register of the United States

Patent and Trademark Office.[1] Lindy and Blackfeet have imprinted that mark on the barrel and on the packaging and advertising of certain of their lines of pens continuously ever since.

The infringement action in the district court arose out of Bic's adoption in 1979 of the identical "Auditor's" mark for a line of its own pens, despite the fact that Bic had agreed not to use Lindy's "Auditor's" trademark.[2]

The Ninth Circuit has recognized that Bic's use of the "Auditor's" trademark was as a trademark. *Lindy Pen Company, Inc., et al. v. Bic Pen Corporation* (9th Cir. 1984) 725 F.2d 1240, at 1248, *cert. denied*, 469 U.S. 1188 (1985). The Ninth Circuit further has recognized that Bic infringed Blackfeet's "Auditor's" trademark, at least insofar as those sales made in telephone order markets where consumers had little or no opportunity to see the goods at the time of purchase. *Lindy Pen Company, Inc., et al. v. Bic Pen Corporation*, 796 F.2d 254, at 257 (9th Cir.

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[1] Registration No. 815,488, September 20, 1966.

[2] In 1965, Robert P. Adler, president of Bic, was copied on correspondence between Bic's "outside" counsel and Lindy in which Bic agreed to stop using the mark. In 1979, while still president or chairman of the board of directors, Mr. Adler personally approved the re-adoption of Lindy's then registered trademark, despite his knowledge that Bic had earlier agreed with Lindy to cease using the "Auditor's" mark.

1986).[3]

The district court, quoting testimony from independent distributors who acknowledged that consumers were intentionally switched from Blackfeet's genuine pens to Bic's infringing pens, held that Blackfeet had established the fact of damages resulting from the infringement. The Ninth Circuit affirmed this holding. *Lindy Pen Company, Inc., et al. v. Bic Pen Corporation* 982 F.2d 1400, at 1411 (9th Cir. 1993).

During discovery on the second remand, Bic produced a list of over 1,000 names of independent distributors to whom Bic distributed its pens bearing the "Auditor's" trademark. Bic's records indicated that it made and placed in the chain of distribution some 170,000,000 pens bearing the "Auditor's" trademark. Bic's records do not indicate how many of such pens were later sold by Bic's independent distributors to their retailers, office supply dealers and the like as a result of telephone orders, nor was there any direct way of determining how many of the trademarked pens were purchased ultimately by consumers from those dealers through tele-

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[3] Previously, a Ninth Circuit decision noted that orders placed by telephone directly with the manufacturer, *i.e.* Lindy, Blackfeet or Bic were not likely to cause confusion. Rather, the Ninth Circuit's concern was with the likelihood of confusion attending consumer's purchases by telephone from independent distributors which sold multiple brands of pens, including those of Lindy, Blackfeet and Bic. *Lindy Pen Co. v. Bic Pen Corp. (Lindy I)*, 725 F.2d, *supra* at 1246, n. 6. (Appendix B, at B9.)

phone orders. Moreover, certain of Bic's distributors proffered testimony that their records did not distinguish between telephone sales versus direct, visual purchases, but that between 70% and 95% of their sales of Bic's infringing pens were through telephone orders. Consequently, the only records available to the parties showed Bic's overall income from, and number of pens sold bearing the "Auditor's" trademark, whether sold by telephone or otherwise.

The Ninth Circuit, in affirming the district court's denial of damages, held that Blackfeet had the burden of isolating the number of pens sold by independent distributors and office supply dealers through telephone orders. The district court rejected as speculative the estimates of telephone order sales provided by Bic's distributors. The district court, further, refused to award damages based upon Lindy's, Blackfeet's or Bic's overall sales, stating that such a calculation would include sales in which no likelihood of confusion existed. Finding that Blackfeet had failed to carry the burden of proof, the district court refused to award any monetary damages. (Appendix D4.)[4]

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[4] To prove which sales were by telephone in the third tier of distribution would require a procession of witnesses in the form of office supply dealers as well as distributors, each of them producing records to substantiate their claims of telephone versus over-the-counter sales. Such a burden of proof, requiring just such a "procession of witnesses" was held by this Court, per Mr. Justice Frankfurter to be the infringer's burden. *See, Mishawaka Rubber & Woolen Mills Mfg. Co. v. S. S. Kresge Co.* 316 U.S. 203, 207, 86 L.Ed. 1381, 1386, 62 S.Ct. 1022, 1024-25 (1942).

REASONS FOR ALLOWING THE WRIT

The Writ of Certiorari Should Be Allowed To Resolve A Direct Conflict Among The Circuits

The Ninth Circuit opinion in this case is directly contrary to a trademark decision by the Sixth Circuit holding that the infringer bears the burden of apportioning the income it derived from the infringing use from the overall income generated from trademarked goods. Petitioners respectfully pray the Court to issue a writ of certiorari to the Ninth Circuit to resolve this important trademark issue.

In *Wynn Oil Company v. American Way Service Corporation* 943 F.2d 595 (6th Cir. 1991), the Sixth Circuit dealt with the service mark "X-Tend" used to identify a warranty provided for some of the infringer's products. The infringer sold products along with a warranty identified by the service mark "X-Tend," but did not charge a special, separate price for the warranty, per se.

The infringer had claimed that no one could apportion the income received on account of the use of the infringed service mark as distinguished from the total income derived from the sale of the product with warranty, combined. The Sixth Circuit reversed the refusal to award damages as an abuse of discretion, citing this Court's decision in *Mishawaka Rubber & Woolen Mills Manufacturing Company v. S. S. Kresge Company* (1942) 316 U.S. 203, 206-08, 86 L.Ed. 1381, 1385-86, 62 S.Ct. 1022, 1024-25.

The Sixth Circuit expressly rejected the defendant's contention that the trademark owner was not entitled to damages because it had failed to apportion the total receipts into sales of the service contracts as opposed to total receipts:

> "However, both common sense and the statute suggest that the burden of apportioning profits should be placed on the defendants. *See Mishawaka Rubber & Woolen Mills Mfg. Co. v. S. S. Kresge Co.* 316 U.S. 203, 206-207, 62 S.Ct. 1022, 1024-1025, 86 L.Ed. 1381, (1942) (holding that owner of the mark does not have to prove that infringer caused owner to lose sales: 'The burden is the infringer's to prove that his infringement had no cash value in sales made by him. If he does not do so, the profits made on sales of goods bearing the infringing mark properly belong to the owner of the mark. There may be a windfall to the trade-mark owner where it is impossible to isolate the profits which are attributable to the use of the infringing mark. But to hold otherwise would give the windfall to the wrongdoer.'); *Brunswick Corp. v. Spinit Reel Co.*, 832 F.2d 513, 526 (10th Cir. 1987) ('A defendant [infringer] whose wrongful conduct has caused the difficulty in assessing damages cannot complain that the damages are somewhat speculative.') [remaining citations omitted]."

Wynn Oil Co. v. American Way Service Corp., supra, 943 F.2d, at 606

In reaching this result, the Sixth Circuit reiterated that:

> "'[A]ll the inconvenience and loss from the confusion is thrown upon the party who produces it; and this rule applies, even though the innocent victim's share in the property wrongfully and inextricably commingled may apparently be a small part of the total.'" *Id.*, 943 F.2d, at 606.[5]

In *Wynn Oil*, as here, the district court found there was no actual confusion (943 F.2d, at 601) and, further, also as here, no secondary meaning (943 F.2d, at 605). The legally significant facts are strikingly similar, yet the legal results are so in conflict.

The Sixth Circuit's decision in *Wynn Oil* was entered only ten months before the hearing, and after the briefing, in the Ninth Circuit decision to which a writ is sought herein. While *Wynn Oil* was brought specially to the attention of the Ninth Circuit, the Ninth Circuit's opinion below makes no reference to the Sixth Circuit's earlier approach.

A result similar to the Sixth Circuit's approach had been reached earlier by a district court in the Third Circuit. *See, Admiral Corporation v. Price Vacuum Stores, Inc.* 141

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[5] This is, of course, the approach petitioners herein would urge on the merits in the event this petition for certiorari is granted. At this point, however, the holdings of *Wynn Oil Co. v. American Way Service Corp.* and the other cited case are set out primarily to demonstrate the direct conflict among the circuits with regard to the burden of apportioning an infringer's income based on use of a trademark found to be infringing.

F.Supp. 796, at 802 (E.D.Penn. 1956).

The direct conflict among the circuits with regard to apportioning income of an established infringer should be resolved by this Court because it frustrates the uniform application of federal trademark protection and creates intolerable inconsistencies in the conduct of business by those subject to federal trademark protection.

The Ninth Circuit's ruling has nationwide significance. Increasingly, consumers are forced to rely on brand names in making their purchasing decisions. The ever-growing use of telephone sales, catalog sales and televised "home shopping networks" means that purchases are made without the opportunity for direct inspection of the product. Successful operation of such marketplaces requires effective, uniform national protection of trademarks.

In passing the Lanham Trademark Act, Congress intended "to unify trademark law on a national basis." *Union Carbide Corporation v. Ever-Ready, Inc.* 531 F.2d 366, at 376 (7th Cir. 1976), *cert. denied*, 429 U.S. 830 (1976). Moreover, its purpose included the provision of substantive as well as procedural protection. The Senate Committee Report on the Act describes the purpose this way:

> "There can be no doubt under the recent decisions of the Supreme Court of the constitutionality of a national act giving substantive as distinguished from merely procedural rights in trade-marks in commerce over which Congress has plenary power . . . a sound public policy requires that trade-marks should receive nationally the greatest protection that

> can be given. Sen. Rep. No. 1333, 79th Cong., 2d Sess. (1946), U.S. Code Cong. Serv. 1946, p. 1277."

Union Carbide Corp. v. Ever-Ready, Inc., *supra*, 531 F.2d, at 376.

Viewed against this background, it is essential that the clear conflict among the circuits be resolved by this Court. In light of the national character of businesses protected by the Lanham Act, a uniform national rule concerning the apportionment of sales is necessary in order to prevent forum shopping among trademark owners having nationwide sales. The facts in this case illustrate the problem. Had Blackfeet and Lindy filed suit in the Sixth or Third Circuits (which they could have done given the nationwide sales of all parties) Blackfeet and Lindy would have received a substantial award of damages. Having brought suit in the Ninth Circuit, however, Blackfeet and Lindy have been limited to injunctive relief. A uniform national law of trademark protection should not yield such disparate results.

This Court should resolve the conflict.

CONCLUSION

For the foregoing reasons, petitioners respectfully request that this Court grant a Writ of Certiorari to the Ninth Circuit.

Respectfully submitted,

Thomas A. Turner, Jr.
Counsel of Record

Counsel for Petitioners,
Lindy Pen Company, Inc. and
Blackfeet Plastics, Inc.

Dated: May 14, 1993

APPENDIX A

FOR PUBLICATION

UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

LINDY PEN COMPANY, INC.;
BLACKFEET PLASTICS, INC.,
Plaintiffs-Appellants,
Cross-Appellees,

v.

BIC PEN CORPORATION,
Defendant-Appellee,
Cross-Appellant.

Nos. 90-55248,
90-55249

D.C. No.
CV-80-0010-WDK

OPINION

Appeal from the United States District Court
for the Central District of California
William D. Keller, District Judge, Presiding

Argued and Submitted
July 8, 1992—Pasadena, California

Filed January 14, 1993

Before: Joseph T. Sneed and Dorothy W. Nelson, Circuit Judges, and John M. Roll,* District Judge.

Opinion by District Judge Roll

*Honorable John M. Roll, United States District Judge for the District of Arizona, sitting by designation.

OPINION

ROLL, District Judge:

This trademark infringement case brought by Lindy Pen Company, Inc. against Bic Pen Corporation returns to this court for the third time seeking review of the district court's damages order upon remand. For the reasons set forth below, we affirm the decision of the district court and deny Bic's cross-appeal.

INTRODUCTION

The origins of this case go back to the mid-1960s when Appellant Lindy Pen Company[1] (Lindy) and Appellee Bic Pen Corporation (Bic) were competitors in the production and manufacture of ball point pens. Each marketed a fine-point tip for use by accountants and auditors. In 1965, before Lindy's trademark was perfected and registration issued, Bic used the mark "Auditor's" on its pen barrels. Lindy contacted Bic, making a claim to the mark, and Bic voluntarily agreed to stop using it. On September 20, 1966, United States Trademark Registration No. 815,488 was issued to Lindy for the

[1]In 1981, Lindy sold its assets, including its trademark rights, to Blackfeet Plastics, Inc. Appellants will be referred to in the singular as Lindy throughout the text.

word "Auditor's." *Lindy Pen Co., Inc. v. Bic Pen Corp.*, 550 F. Supp. 1056, 1059 (C.D. Cal. 1982). Lindy perfected the registration by filing the appropriate documents pursuant to federal statute. *Id.*

Fourteen years later, Bic adopted the legend "Auditor's Fine Point" to describe a certain pen model. Prior to this use, Bic researched the term "Auditor's" and found that at least three other manufacturers employed a variation of the word "Auditor's" in their marketing materials. This investigation revealed that Lindy also used the term, but that Lindy exerted no proprietary interest over it in its advertising.

Lindy learned of Bic's renewed use of the mark and filed suit in 1980 alleging trademark infringement, unfair competition, breach of contract, and trademark dilution. The district court entered judgment in favor of Bic on all claims. The circuit court upheld the district court's ruling that Bic did not infringe in the major retail markets, but remanded the case to determine whether there was a likelihood of confusion in telephone order sales. *Lindy Pen Co., Inc. v. Bic Pen Corp.*, 725 F.2d 1240 (9th Cir. 1984), *cert. denied*, 469 U.S. 1188, 105 S.Ct. 955, 83 L.Ed.2d 962 (1985) (*Lindy I*). The court specifically found that "there is no evidence of actual confusion [and] that Bic adopted the designation 'Auditor's fine point' without intent to capitalize on Lindy's goodwill . . . ." *Id.* at 1246.

Upon remand, the district court determined that there was a likelihood of confusion in the telephone order market because the purchaser did not have the opportunity to view the pens at the time of purchase. The court went on to find, however, that the confusion could be cured upon receipt of the goods because the purchaser could return the product. The circuit court again disagreed and found that Lindy had established a likelihood of confusion in the telephone order market which post-sale inspection could not cure. *Lindy Pen Co., Inc. v. Bic Pen Corp.*, 796 F.2d 254 (9th Cir. 1986) (*Lindy II*). In

words which now comprise the nub of the current appeal, this court ordered that the case be remanded to district court "with instructions to enter an order enjoining Bic from using the word 'Auditor's' on or in connection with its pens. We additionally instruct the district court to order an accounting and to award damages and other relief as appropriate." *Id.*

The district court thereafter issued an injunction and permitted the parties to conduct discovery regarding damages and profits. The court ordered the parties to submit briefs addressing four specific points directed at the damages claim. After reviewing the parties' briefs and exhibits, the court held that an accounting of profits was inappropriate because Bic's infringement was innocent and accomplished without intent to capitalize on Lindy's trade name. The court also found that an award of damages was inappropriate because Lindy had failed to establish the amount of damages. The court granted Lindy the opportunity to resubmit written argument on damages, but found that Lindy once again failed to sustain its burden of proof.

The parties now argue, on appeal and cross-appeal, that the remand determination regarding damages is in error. A determination of damages is left to the sound discretion of the trial court. In the instant case, there has been no abuse of discretion; therefore, the judgment is affirmed.

INTERPRETATION OF LINDY II

[1] The threshold question of this appeal is whether the language of *Lindy II* entitled Lindy to an accounting and monetary damages upon remand. Lindy maintains that the district court had no choice but to order an accounting pursuant to this court's mandate. Undeniably, the decision of the circuit court in a prior appeal must be followed in all subsequent proceedings in the same case under the law of the case doctrine. *Eichman v. Fotomat Corp*, 880 F.2d 149, 157 (9th Cir. 1989). The law of the case controls unless evidence on remand is

substantially different from that presented in previous proceedings. *Waggoner v. Dallaire*, 767 F.2d 589, 593 (9th Cir. 1985), *cert. denied*, 475 U.S. 1064, 106 S.Ct. 1374, 89 L.Ed.2d 601 (1986). An order issued after remand may deviate from the mandate, however, if it is not counter to the spirit of the circuit court's decision. *King Instrument Corp. v. Otari Corp.*, 814 F.2d 1560, 1563 (Fed. Cir. 1987). The district court must be given a meaningful opportunity to follow the directive of the circuit court in resolving the issues. *Portsmouth Square, Inc. v. Shareholders Protective Committee*, 770 F.2d 866, 872 (9th Cir. 1985). The district court should not be reversed for failing to follow a mandate if its decision is within the scope of the remand. *Little v. United States*, 794 F.2d 484, 488 (9th Cir. 1986).

[2] We find that the district court established Lindy's damages upon remand in accordance with the mandate of *Lindy II*. We base this decision upon a thorough reading of the decision as a whole which quite clearly remanded the action for a "determination of damages." *Lindy II*, 796 F.2d at 255. We also draw support for this interpretation from case law that holds that a determination of damages in a trademark infringement action, including an accounting, is to be pursued in light of equitable considerations. *Maier Brewing Co. v. Fleishmann Distilling Corp.*, 390 F.2d 117, 120 (9th Cir.), *cert. denied*, 391 U.S. 966, 88 S.Ct. 2037, 20 L.Ed.2d 879 (1968). "The equitable limitation upon the granting of monetary awards . . . would seem to make it clear that such a remedy should not be granted as a matter of right." *Id. See also Burger King Corp. v. Mason*, 855 F.2d 779, 780 (11th Cir. 1988). When fashioning a remedy in a given case, the court must rely "not merely on the legal conclusion of liability, but [must] also . . . consider the nature of the infringing actions, including the intent with which they were motivated and the actuality, if any, of their adverse effects upon the aggrieved party." *Bandag, Inc. v. Al Bolser's Tire Stores*, 750 F.2d 903, 918 (Fed. Cir. 1984) (applying Ninth Circuit law). *See also Highway Cruisers of California, Inc. v. Security Industries,*

Inc., 374 F.2d 875, 876 (9th Cir. 1967) ("One may get just enough relief to stop the evil . . . .").

The district court adhered to the spirit of *Lindy II* and the dictates of controlling precedent by proceeding with additional discovery and argument prior to ordering an accounting of Bic's profits. The district court ultimately determined that an accounting was not appropriate under the circumstances of this case and its decision will therefore be reviewed for an abuse of discretion. "There is an abuse of discretion when a judge's decision is based on an erroneous conclusion of law or when the record contains no evidence on which [s]he rationally could have based that decision." *Petition of Hill*, 775 F.2d 1037, 1040 (9th Cir. 1985).

ACCOUNTING OF PROFITS

Following the damages proceeding, the district court held that an accounting of profits was inappropriate because Bic's infringement was innocent and accomplished without intent to capitalize on Lindy's trade name. Section 35 of the Lanham Act, 15 U.S.C. § 1117(a), governs the award of monetary remedies in trademark infringement cases and provides for an award of defendant's profits, any damages sustained by the plaintiff, and the costs of the action.[2]

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[2]Section 1117(a) provides that a trademark registrant shall be entitled, upon the finding of an infringement and subject to the principles of equity, to recover:

> (1) defendant' s profit, (2) any damages sustained by the plaintiff, and (3) the costs of the action. The court shall assess such profits and damages or cause the same to be assessed under its direction. In assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed. In assessing damages the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. If the court shall find that the amount of the recovery based on profits is either inadequate or

[3] The Supreme Court has indicated that an accounting of profits follows as a matter of course after infringement is found by a competitor. *Hamilton-Brown Shoe Co. v. Wolf Bros. & Co.*, 240 U.S. 251, 259, 36 S.Ct. 269, 271, 60 L.Ed. 629, 634 (1916). Nonetheless, an accounting of profits is not automatic and must be granted in light of equitable considerations. *Champion Spark Plug Co. v. Sanders*, 331 U.S. 125, 131, 67 S.Ct. 1136, 1139, 91 L.Ed. 1386, 1391 (1947). Where trademark infringement is deliberate and willful, this court has found that a remedy no greater than an injunction "slights" the public. *Playboy Enterprises, Inc. v. Baccarat Clothing Co., Inc.*, 692 F.2d 1272, 1274 (9th Cir. 1982). This standard applies, however, only in those cases where the infringement is "willfully calculated to exploit the advantage of an established mark." *Id.* The intent of the infringer is relevant evidence on the issue of awarding profits and damages and the amount. *Maier Brewing Co.*, 390 F.2d at 123. When awarding profits, the court is cautioned that the "Plaintiff is not . . . entitled to a windfall." *Bandag, Inc.*, 750 F.2d at 918.

Lindy posits that Bic's actions require an accounting as a remedy for willful infringement.[3] The parties agree that as early as 1965, Bic had knowledge of Lindy's claim to trademark rights in the term "Auditor's" when Bic published a catalog advertising pens with the mark stamped on their barrels. Bic voluntarily suspended use of the mark after Lindy informed Bic of its claim to the term. Fourteen years after this exchange, Bic began using the legend "Auditor's Fine Point"

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excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. Such sum in either of the above circumstances shall constitute compensation and not a penalty. The court in exceptional cases may award reasonable attorney fees to the prevailing party.

[3]Intentional infringement is not at issue as the district court's initial conclusion that Bic's infringement was not intentional is law of the case and cannot be disturbed.

on its extra-fine point pens, the subject of the current litigation.

[4] Willful infringement carries a connotation of deliberate intent to deceive. Courts generally apply forceful labels such as "deliberate," "false," "misleading," or "fraudulent" to conduct that meets this standard. *Bandag, Inc.*, 750 F.2d at 918-19; *National Lead Company v. Wolfe*, 223 F.2d 195, 203 (9th Cir. 1955), *cert. denied*, 350 U.S. 883, 76 S.Ct. 135, 100 L.Ed. 778 (1955). Cases outside this jurisdiction offer additional guidance. For instance, the Circuit for the District of Columbia equates willful infringement with bad faith. *Reader's Digest Association, Inc. v. Conservative Digest, Inc.*, 821 F.2d 800, 807 (D.C. Cir. 1987). Willfulness and bad faith "require a connection between a defendant's awareness of its competitors and its actions at those competitors' expense." *ALPO Petfoods, Inc. v. Ralston Purina Co.*, 913 F.2d 958, 966 (D.C. Cir. 1990) (court reversed trial court's finding that false advertising violation of Lanham Act was willful or in bad faith). The Sixth Circuit has stated that a knowing use in the belief that there is no confusion is not bad faith. *Nalpac, Ltd. v. Corning Glass Works*, 784 F.2d 752, 755 (6th Cir. 1986) (accounting of profits properly denied where there was no deliberate intent to cause confusion). *See also W.E. Bassett Co. v. Revlon, Inc.*, 435 F.2d 656, 662 (2d Cir. 1970) (affirming finding of willfulness based on evidence that defendant tried to buy out trademark holder prior to infringement). Indeed, this court has cautioned that an accounting is proper only where the defendant is "attempting to gain the value of an established name of another." *Maier Brewing Co.*, 390 F.2d at 123.

[5] The present case simply does not involve willful infringement. Evidence taken at the damages proceeding shows that Lindy in general, and its Auditor's line in particular, was experiencing an overall business decline. The trial court also found that any knowledge that Bic may have had of Lindy's mark stemming from the 1965 interchange was

conducted by outside counsel, thereby implying that Bic's knowledge of Lindy's interest was attenuated at best. *Lindy Pen*, 550 F. Supp. at 1059. The district court also determined that Lindy's mark was weak and that there was no evidence of actual confusion. *Id.* at 1058-60. Based on these facts, it was reasonable for the district court to conclude that Bic's actions were not "willfully calculated to exploit the advantage of an established mark," *Bandag, Inc.*, 750 F.2d at 921, and that Bic's conduct did not rise to the level of willfulness which would have mandated an award.[4]

[6] This circuit has announced a deterrence policy in response to trademark infringement and will grant an accounting of profits in those cases where infringement yields financial rewards. *Playboy Enterprises, Inc. v. Baccarat Clothing Co., Inc.*, 692 F.2d 1272, 1274 (9th Cir. 1982) (plaintiff damaged through defendant's intentional use of counterfeit product labels). However, the policy considerations which clearly justified an award in *Playboy Enterprises* are not present in this case. Unlike the *Playboy Enterprises* plaintiff, Lindy's trademark was weak and Bic's infringement was unintentional. Moreover, Bic's major position in the pen industry makes it clear that it was not trading on Lindy's relatively obscure name. Accordingly, the policy considerations announced by *Playboy Enterprises* would be trivialized by insisting on an accounting in this case. *See ALPO Petfoods Inc.*, 913 F.2d at 969 ("deterrence is too weak and too easily invoked a justification for the severe and often cumbersome remedy of a profits award . . . ."). To award profits in this situation would amount to a punishment in violation of the Lanham Act which clearly stipulates that a remedy "shall constitute compensation not a penalty." 15 U.S.C. § 1117(a).

[4]Even assuming that Bic could be termed a willful infringer, "[w]illful infringement may support an award of profits to the plaintiff, but does not require one." *Faberge, Inc. v. Saxony Products, Inc.*, 605 F.2d 426, 429 (9th Cir. 1979) (citing *Maier Brewing Co.*, 390 F.2d at 121).

AWARD OF DAMAGES

[7] 15 U.S.C. § 1117(a) further provides for an award, subject to equitable principles, of "any damages sustained by the plaintiff . . . ." A plaintiff must prove both the fact and the amount of damage. 2 J. Thomas McCarthy, Trademarks and Unfair Competition § 30:27, at 511 (2d ed. 1984). Damages are typically measured by any direct injury which a plaintiff can prove, as well as any lost profits which the plaintiff would have earned but for the infringement. *Id.* at 509. Because proof of actual damage is often difficult, a court may award damages based on defendant's profits on the theory of unjust enrichment. *Id.* at 511. *See also Bandag, Inc.*, 750 F.2d at 918.

The district court gave Lindy the opportunity to prove its damages under both methods: actual damages in the form of its lost profits, or if that proved too difficult, through proof of Bic's unjust enrichment in the form of Bic's profits. The damages proceeding was conducted through written pleadings.[5] Based on the initial submissions, the judge held that although

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[5]The court ordered the parties to file written position statements on the following issues:

> (1) The amount of telephone order sales of Bic pens. The parties should address the propriety and feasibility of a breakdown of sales based on orders requesting pens by manufacturer's name, model number and "AUDITOR'S."
>
> (2) Lindy's sales of its "AUDITOR'S" line before and during the period at issue.
>
> (3) Lindy's total attorneys' fees incurred in prosecuting this action and those attributable to the theory on which it has prevailed. The statement of attorneys' fees should include a brief description of the services rendered, the attorney who performed them, that attorney's applicable billing rate, the date rendered, and the time billed to the tenth of an hour.
>
> (4) Any equitable factors for the Court to consider under § 1117(a).

Lindy had established the fact of damage, it had not proven the amount of damage. However, the court directed further briefing subject to detailed instructions.[6]

[8] After final briefing, the court concluded that Lindy had failed to show any actual damage because it did not put forth sufficient proof of its lost profits. To establish damages under the lost profits method, a plaintiff must make a "prima facie showing of reasonably forecast profits." 2 J.T. McCarthy, Trademarks and Unfair Competition § 30:27, at 511 (2d ed. 1984). The court found Lindy's calculations to be irreparably flawed because Lindy did not isolate its own telephone order sales from total pen sales. Consequently, Lindy's calculations contained items in which no likelihood of confusion existed and therefore were inappropriately included. The district court reasoned that it had no rational basis upon which to estimate an award as to the infringing items and accordingly denied Lindy's request.

Trademark remedies are guided by tort law principles. *Id.* at 509 ("Plaintiff's damages should be measured by the tort standard under which the infringer-tortfeasor is liable for all injuries caused to plaintiff by the wrongful act . . . ."). As a general rule, damages which result from a tort must be established with reasonable certainty. Dan B. Dobbs, Remedies § 3.3, at 151 (1973). The Supreme Court has held that "[d]amages are not rendered uncertain because they cannot be calculated with absolute exactness," yet, a reasonable basis for computation must exist. *Eastman Kodak Co. v. Southern Photo Materials Co.*, 273 U.S. 359, 379, 47 S.Ct. 400, 405, 71 L.Ed. 684, 691 (1927). Many courts have denied a mone-

[6]The court found Lindy's initial submission to be defective because Lindy did not attempt to isolate the telephone order submarket of pens, its proposed pre-infringement period inappropriately excluded a period of loss and contained an explicable gap in the period, and because Lindy used different infringement periods depending on whether it was calculating lost sales or lost profits.

tary award in infringement cases when damages are remote and speculative. *See generally Foxtrap, Inc. v. Foxtrap, Inc.*, 671 F.2d 636, 642 (D.C. Cir. 1982) ("any award based on plaintiff's damages requires some showing of actual loss"); *Burndy Corp. v. Teledyne Industries, Inc.*, 584 F. Supp. 656, 664 (D.C. Conn.) ("no assessment of damages is authorized if it is not based on actually proven damages."), *aff'd* 748 F.2d 767 (2d Cir. 1984); *Invicta Plastics (USA) Ltd. v. Mego Corp.*, 523 F. Supp. 619, 624 (S.D.N.Y. 1981) ("damages will not be awarded in the absence of credible evidence demonstrating injury to the plaintiff from defendant's sales."); *Vuitton et Fils, S.A. v. Crown Handbags*, 492 F. Supp. 1071, 1077 (S.D.N.Y. 1979) ("The discretionary award of either damages or profits assumes an evidentiary basis on which to rest such an award. Without such a basis there can be no recovery."), *aff'd mem.*, 622 F.2d 577 (2d Cir. 1980).

Lindy produced evidence of its total pen sales, as available,[7] for the designated time period. Although it divided its sales into total sales and specific sales of Auditor's, it failed to further subdivide its data into the category of telephone order sales. Lindy was in the best position to identify its own sales, but declined to provide the court with any evidence of its loss caused by Bic's wrong doing. Although Lindy offers excuses for this deficiency, its explanations do not negate the fact that Lindy never furnished the court any reasonable estimate of its own sales.[8] It would have been error for the district court to select an arbitrary percentage of total sales to represent the more narrow submarket of telephone sales. The court was correct, therefore, in finding that Lindy failed to sustain its burden of proving reasonably forecast profits.

[7]Lindy admitted that it did not have records or complete records from which to calculate the lost sales for the entire period.

[8]Lindy devotes much of its argument to the fact that the district court incorrectly set the pre-infringement and infringement time periods. Regardless of the merits of Lindy's position, this contention is essentially irrelevant to the dispositive issue of whether Lindy was able to provide the court with evidence of its sales in the infringing market.

[9] Lindy also sought an accounting of Bic's profits based on a theory of unjust enrichment. Lindy assesses as error the district court's requirement that Lindy separate Bic's telephone order sales from total sales of goods. Lindy maintains that this requirement had the effect of shifting the burden of proving infringing sales from the infringer to the trademark holder. However, an accounting is intended to award profits only on sales that are attributable to the infringing conduct. The plaintiff has only the burden of establishing the defendant's gross profits from the infringing activity with reasonable certainty. Once the plaintiff demonstrates gross profits, they are presumed to be the result of the infringing activity. *Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.*, 316 U.S. 203, 206-07, 62 S.Ct. 1022, 1024-25, 86 L.Ed. 1381, 1385-86 (1942). The defendant thereafter bears the burden of showing which, if any, of its total sales are not attributable to the infringing activity, and, additionally, any permissible deductions for overhead. 15 U.S.C. 1117(a).

[9] Lindy failed to come forward with any evidence of sales of the Bic "Auditor's Fine Point" in the infringing market. Lindy instead brought forth proof of Bic's total sales. Lindy averred to the court that a division of Bic's sales into the telephone submarket "is impossible from Bic's records since Bic never separated its pens according to telephone sales . . . ." To the contrary, Lindy had access through discovery to Bic's records from which a reasonable estimate could have been accomplished.[9]

We find that Lindy's appeal on the question of actual damages fails due to a lack of proof at the damages proceeding. The district court followed the directive of this court when it offered Lindy the opportunity to establish damages. Lindy

[9]Bic offers in the alternative that its cost and deduction evidence shows that Bic made no profits on its "Auditor's Fine Point" pens. Because we find that Lindy failed to make a prima facie showing of Bic's unjust enrichment, we need not reach this argument.

was unable or unwilling to present competent evidence of its lost profits or Bic's unjust enrichment arising from the infringement. We affirm the trial court on this point.

AWARD OF TREBLE DAMAGES AND ATTORNEYS' FEES

In addition to challenging the district court's decision under 15 U.S.C. § 1117(a), Lindy attacks the court's refusal to award damages pursuant to the provisions of 15 U.S.C. § 1117(b).[10] Section 1117(b) mandates an award of treble damages and attorneys' fees in the case of an intentional infringement "unless the court finds extenuating circumstances." 15 U.S.C. § 1117(b). The district court specifically found and concluded that "[t]he record taken as a whole does not support a finding that the defendant's conduct or mark falls within the scope" of the subsection. The court ordered that the damages phase of the trial be conducted solely under the provisions of § 1117(a) which require a showing of exceptional circumstances as a precondition to an award of attorneys' fees.

[10] Lindy doggedly maintains that the prerequisites of § 1117(b) are met and the court's contrary determination is clear error. Notwithstanding Lindy's protestations, the elements required to support an award are not present here. The Ninth Circuit expressly determined in both prior appeals that Bic's infringement was not intentional. *Lindy II*, 796 F.2d at 257; *Lindy I*, 725 F.2d at 1246. Bic's admission that it had knowledge of Lindy's claim to trademark rights in the term

[10]15 U.S.C. § 1117(b) provides in part that "[i]n assessing damages under subsection (a) of this section, the court shall, unless the court finds extenuating circumstances, enter judgment for three times such profits or damages, whichever is greater, together with a reasonable attorney's fee, in the case of any violation . . . that consists of intentionally using a mark or designation, knowing such mark or designation is a counterfeit mark . . . in connection with the sale, offering for sale, or distribution of goods or services."

"Auditor's" in 1965 does not now refute the settled law of the case that Bic did not intentionally infringe upon Lindy's trademark. *See generally Chanel, Inc. v. Italian Activewear of Florida, Inc.*, 931 F.2d 1472 (11th Cir. 1991) (a plaintiff must prove an intent to infringe beyond that required to establish a violation of federal law or to obtain federal statutory remedies).

[11] Even assuming this court were somehow to find that Bic demonstrated the requisite intent, an award under § 1117(b) is never automatic and may be limited by equitable considerations. The statute specifically states that the district court may refrain from imposing the mandatory sanctions of § 1117(b) upon a finding of extenuating circumstances. Although the district court did not make a finding on this point other than to note that the record as a whole did not justify an award under § 1117(b), extenuating circumstances may be inferred. Some of the factors the court found persuasive were that Bic was "unaware of Lindy's registered trademark" and that "[a]ll references to the earlier correspondence between Bic and Lindy were held by outside counsel and were unknown to in-house counsel." 550 F. Supp. at 1059.

[12] Nor can we agree that the district court's refusal to award attorneys' fees pursuant to § 1117(a) was in error. While the term "exceptional" is not defined in the statute, generally a trademark case is exceptional for purposes of an award of attorneys' fees when the infringement is malicious, fraudulent, deliberate or willful. *Sealy, Inc. v. Easy Living, Inc*, 743 F.2d 1378, 1384 (9th Cir. 1984). *See also Playboy Enterprises*, 692 F.2d at 1276 (failure to award attorneys' fees was abuse of discretion where defendant "deliberately arranged to obtain counterfeit goods and to sell such goods as genuine PEI products."). An award is within the discretion of the trial court and will not be disturbed absent 'abuse of that discretion. *Transgo, Inc. v. Ajac Transmission Parts Corp.*, 768 F.2d 1001, 1026 (9th Cir. 1985), *cert. denied*, 474 U.S.

1059, 106 S.Ct. 802, 88 L.Ed.2d 1778 (1986). Other than its longevity, there is nothing exceptional about this case. We therefore find that the trial court did not abuse its discretion in ruling that there are no exceptional circumstances requiring an award of Lindy's attorneys' fees.

STATE INFRINGEMENT CLAIM

Lindy claims that it is entitled to damages under state trademark law and the district court's refusal to award statutory remedies should be reversed. In its original complaint, Lindy alleged a cause of action for common law unfair competition. At the second remand, Lindy sought damages pursuant to Cal. Bus. & Prof. Code § 14340. After ordering rebriefing with regard to "Lindy's pendent claims based on the alleged California registration of a trademark," the district court found that Lindy had failed to plead and prove state registration at the liability phase of the proceeding and was therefore limited in its recovery to common law remedies.

Lindy objects, arguing that it need only establish a common law violation in order to collect under the California code. Lindy maintains that § 14340 merely complements its common law cause of action by providing a measure of damages. Lindy cites California case law holding that "registration is not a required condition to establish a protectable proprietary interest under common law rules." *North Carolina Dairy Foundation, Inc. v. Foremost-McKesson, Inc.*, 92 Cal. App. 3d 98, 106-07, 154 Cal. Rptr. 794, 798-799 (1979).

[13] Whether state registration is required to establish a prima facie case of statutory infringement is irrelevant. The district court ruled on the precise issue of whether Lindy had ever alleged a state cause of action; the court did not engage in an interpretation of state law. We thus review *de novo* the district court's dismissal of this claim for insufficient pleading. *Evans v. McKay*, 869 F.2d 1341, 1344 (9th Cir. 1989). In so reviewing we find that Lindy's alleged California state reg-

istration was not a part of the record of this case and the court ruling prohibiting introduction of proof of state registration was correct. Although Lindy did present a claim for common law unfair competition in its complaint, Lindy failed to assert any allegations of state trademark registration. This error was not overcome by the evidence Lindy produced at rebriefing. The district court concluded that the exhibit Lindy submitted "did not establish plaintiffs' mark . . . [T]he alleged certificate of registration is hearsay and is not the best evidence of the contents of any certificate of registration." We thus affirm the district court.

BIC PEN'S CROSS APPEAL

[14] Bic contends by way of cross-appeal that the district court's finding that Lindy had established the fact of damages was in error. Lindy offered the testimony of a wholesale office supply distributor who testified that in the course of his business, he would "switch" a Bic pen for a Lindy in customer orders.[11] Bic counters that this testimony is incredible because it is both hypothetical and speculative. Bic maintains that throughout a decade of litigation in this matter, Lindy has failed to provide the court with the requisite evidence of actual consumer confusion. Bic does not challenge the court's finding of likelihood of confusion, but maintains that evidence of actual confusion is necessary in order for Lindy to recover damages. The district court found, and this court affirmed, that there has been no showing of actual confusion between the competing products.

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[11]The witness testified to the following:

Q: Have you ever while - have you ever switched a customer over from a Lindy pen which he asked for to a Bic pen?

A: Yes, I have.

Q: Have you ever switched him from the Lindy Auditor's to the Bic Auditor's pen?

A: Yes.

[15] Other jurisdictions have made a distinction between the elements necessary to establish a legal basis for liability from those required for proof of damages. *See Brunswick Corp. v. Spinit Reel Co.*, 832 F.2d 513, 525 (10th Cir. 1987). Although we recognize this distinction, "[n]evertheless, an inability to show actual damages does not alone preclude a recovery under section 1117." *Bandag, Inc.*, 750 F.2d at 919. In so holding, we express a distinct preference for those opinions permitting relief based on the totality of the circumstances. *See Burger King Corp.*, 855 F.2d at 781 (plaintiff need not demonstrate actual damage to obtain an award reflecting an infringer's profits); *PPX Enterprises, Inc. v. Audiofidelity Enterprises, Inc.*, 818 F.2d 266 (2nd Cir. 1987) (consumer deception, as opposed to consumer confusion, is sufficient to state a claim for damages); *American Home Products Corp. v. Johnson & Johnson*, 577 F.2d 160, 165 (2d Cir. 1978) ("Deceptive advertising or merchandising statements may be judged in various ways. If a statement is actually false, relief can be granted on the court's own findings without reference to the reaction of the buyer or consumer of the product."). Here, Lindy's evidence that at least one wholesale distributor engaged in switching its product is credible proof of the fact of damage.

[16] As its second point of appeal, Bic seeks a ruling specifying that injunctive relief is the sole appropriate remedy in this case. Although the use of an injunction as a sole remedy would not be an abuse of the district court's discretion, and indeed reflects the actual result in this case, it is not mandated as a matter of law. The district court is granted broad discretion within which to fashion a remedy for a violation of federal trademark law. *Maier Brewing Co.*, 390 F.2d at 121. An injunction alone may fully satisfy the equities of a case, particularly in the absence of a showing of wrongful intent. *Id.* at 124. Bic cites the court to numerous cases where an injunction alone has been held to be sufficient relief; however, none of these cases advance a rule requiring injunctive relief as a

sole and exclusive remedy. We will refrain from formulating such a rule here.

CONCLUSION

The district court's order complies with the Ninth Circuit's previous mandate. We find that the district court did not abuse its discretion in denying Lindy an accounting of profits and award of damages. We also hold that the elements necessary for a grant of treble damages and attorneys' fees are not present in this case. We affirm the district court's denial of Lindy's untimely state infringement claim. Bic's cross-appeal is denied in its entirety.

Accordingly, the decision of the district court is AFFIRMED and Bic's cross-appeal is DENIED.

APPENDIX B

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

No. 82-6053

D.C. No. CV 80-10-CHH

LINDY PEN COMPANY, INC., and BLACKFEET PLASTICS, INC.,
Plaintiffs-Appellants,

v.

BIC PEN CORPORATION,
Defendant-Appellee.

OPINION

Appeal from the United States District Court
for the Central District of California

Hon. Cynthia Holcomb Hall, Presiding

Argued and Submitted: November 7, 1983

Before:

HUG and FLETCHER, Circuit Judges, and
INGRAM,* District Judge

FLETCHER, Circuit Judge:

Lindy Pen Company, owner of a trademark registration for the word "Auditor's" in connection with ballpoint pens,

* Hon. William A. Ingram, United States District Judge for the Northern District of California, sitting by designation.

sued Bic Pen Corporation for trademark infringement, unfair competition, breach of contract and trademark dilution. After a bench trial limited to the issues of liability, the district court entered judgment for Bic on all claims. Lindy appeals.

Background

Both Lindy and Bic manufacture a variety of ballpoint pens. In 1955, Lindy began to use the word "Auditor's" in connection with the sale of its 460-F model fine point, non-refillable, stick pen. In 1966, Lindy obtained federal trademark registration for the use of "Auditor's" in connection with the sale of ballpoint pens. Lindy imprints the mark on the barrel of its model 460-F fine point pens and uses it on the packaging and advertisements for 460-F pens. Lindy sells most of its 460-F pens to the retail trade. The record appears to indicate that Lindy has also sold 460-F pens to at least one distributor in the commercial trade.[1]

Bic manufactures a fine point pen, model PF, imprinted with the phrase "Auditor's fine point." It adopted the designation in 1979 in order to distinguish its PF pen from its retail fine point and accountant fine point pens. The Bic PF is functionally identical to these retail fine point pens, but has a differently colored hexagonal barrel and contrasting cap and button. Bic Sells its PF pens to the commercial office supply trade and sells its fine point and accountant fine

1. The parties stipulated that Lindy's 460-F pens were "sold primarily to wholesalers for resale to retailers, and to the commercial trade." At trial, Lindy presented the testimony of a former employee of a commercial outlet that his company handled Lindy 460-F pens. In addition, Lindy's president testified that Lindy sold unspecified models to various customers in the commercial trade, and that Lindy had developed its model 850 pen especially for the commercial trade.

point pens to the retail trade. Because the pricing structure of the retail market differs from that of the commercial market, Bic decided to sell a distinct product line exclusively to commercial accounts to avoid the possibility of price erosion between markets. The trial court found, however, that a small number of Bic's PF pens reached retail outlets.

Lindy filed suit in 1980. While the lawsuit was pending, Lindy sold its assets to Blackfeet Plastics, Inc. Blackfeet Plastics was joined as a plaintiff before trial. Lindy and Blackfeet Plastics appeal the district court's judgment for Bic on Lindy's trademark infringement and breach of contract claims.

I. Trademark Infringement.

The essential question in a trademark infringement case is whether the alleged infringement creates a likelihood of confusion. *Shakeys, Inc.* v. *Covalt,* 704 F.2d 426, 431 (9th Cir. 1983); *Jockey Club, Inc.* v. *Jockey Club of Las Vegas, Inc.,* 595 F.2d 1167 (9th Cir. 1979). Unless there is a likelihood of confusion, there is, under the Lanham Trademark Act, no liability for trademark infringement. 15 U.S.C. § 1114 (1976). *See Carson Manufacturing Co.* v. *Carsonite International Corporation,* 686 F.2d 665, 670 (9th Cir. 1981), *cert. denied,* —— U.S. ——, 103 S.Ct. 1499 (1983). In an infringement suit, the plaintiff bears the burden of proving likelihood of confusion, *see Golden Door, Inc.* v. *Odisho,* 646 F.2d 347, 349 (9th Cir. 1980), which "exists when consumers viewing the mark would probably assume that the product or service it represents is associated with the source of a different product or service identified by a similar mark." *Alpha Industries* v. *Alpha Steel Tube & Shapes,* 616 F.2d

440, 443 (9th Cir. 1980) (quoting *Scott Paper Co.* v. *Scott's Liquid Gold, Inc.*, 589 F.2d 1225, 1229 (3d Cir. 1978)).

We treat a determination of the likelihood of confusion as a conclusion of law premised on an analysis of a number of subsidiary factors, including the strength of plaintiff's mark, the similarity of the marks, the similarity of plaintiff's and defendant's goods and the proximity of their marketing channels, evidence of actual confusion, defendant's intent in selecting the mark, the type of goods and the degree of care exercised by purchasers. *See Carson Manufacturing Co.* v. *Carsonite International Corporation,* 686 F.2d at 670-71. We consider these factors to be "foundational facts" and review them under the clearly erroneous standard. *Alpha Industries* v. *Alpha Steel Tube & Shapes,* 616 F.2d at 443-44; *see Golden Door, Inc.* v. *Odisho,* 646 F.2d at 349.

A. Foundational Facts.

The district court found that "Auditor's" was a weak mark, that there was no evidence of actual confusion, that Bic adopted the designation "Auditor's fine point" without intent to capitalize on Lindy's mark and that, although the pens were inexpensive, Lindy had made no showing that purchasers failed to exercise ordinary caution. None of these findings is clearly erroneous. The record indicates that a number of competing pen manufacturers had used or were using "Auditor's" to designate fine point pens at the time Lindy adopted the word as a trademark. Prior to selecting "Auditor's" to designate its PF pen, Bic determined that several brands of pens advertised "auditor's point" or "auditor's extra fine point" pens. Bic elicited testimony from Lindy's witnesses that "Auditor's" indi-

cated a pen with an extra fine point. Lindy introduced no evidence of actual confusion[2] and no testimony indicating purchaser carelessness.

The district court also found that Bic and Lindy sold the PF and 460-F pens in different markets, and through different marketing channels. Finally, the district court concluded that Lindy's "Auditor's" mark and Bic's "Auditor's fine point" mark were not confusingly similar because they appeared in conjunction with "BIC" and "LINDY" on pens, packaging and promotional material that were dissimilar in appearance. Lindy challenges both of these findings as clearly erroneous. We reverse the district court's finding that Lindy and Bic sell the pens in different marketing channels, and reverse in part the finding that the marks are not confusingly similar.

1. Marketing Channels

Much of the testimony given at trial focused upon the marketing channels in which the 460-F and PF pens are sold. The district court determined that Bic sold its PF pens to mail order and telephone solicitation markets for resale to commercial users, but that some Bic PF pens reached the retail market. It found that Lindy sold 460-F pens to wholesalers for resale to retail customers. Despite the

2. Lindy argues that actual confusion must be inferred from evidence that sales of 460-F pens diminished after Bic marketed its PF pen. The district court found that the decreasing sales of 460-F pens were consistent with the overall decline in Lindy's business. This finding is amply supported by evidence in the record. One of Lindy's witnesses, a wholesaler, indicated that his company had dropped the entire Lindy line in response to Lindy's difficulty in meeting orders. Lindy's president testified to a number of conditions causing Lindy serious commercial difficulties during the 1970's. Ultimately, Lindy sold its assets to Blackfeet Plastics, Inc. in 1981.

parties' stipulation that Lindy sold some 460-F pens in the commercial market and testimony indicating that Lindy had sold 460-F pens to at least one commercial distributor, the district court made no express finding as to Lindy's past or current presence in the commercial market.[3] We hold that the determination that the two companies are not in the same channel of trade is clearly erroneous. In *Alpha Industries* v. *Alpha Steel Tube & Shapes,* 616 F.2d at 445, we concluded that some overlap in channels of trade was, on balance, not significant enough to put the companies in the same channel of trade where the goods sold were related but not identical, the purchasers were two distinct groups, the buyers were knowledgeable and the items were expensive. Here, in contrast, the ballpoint pens are essentially interchangeable, the purchasers overlap and are regularly exposed to pens sold in both commercial and retail markets, and the pens are inexpensive, disposable items. In view of the court's finding that some percentage of Bic's PF pens are sold in the retail market and the evidence in the record indicating that some Lindy 460-F pens have been sold in the commercial market, we conclude that the parties sell pens in convergent marketing channels. *See AMF, Inc.* v. *Sleekcraft Boats,* 599 F.2d 341, 353 (9th Cir. 1979). Convergent marketing channels increase the likelihood of confusion. *Id.*

3. Lindy argues that the decline in sales of its 460-F pen, *see supra* note 2, is additional evidence of its sales to the commercial trade prior to Bic's marketing of the PF pen. We disagree. Lindy presented no evidence indicating the percentage of the dimunition in 460-F sales attributable to commercial accounts, and its own witnesses testified to conditions that would account for substantial reduction in sales of Lindy pens in the retail market.

2. Similarity of The Marks.

Overwhelming evidence at trial established that the Lindy and Bic pens and all packaging, display and promotional materials were dissimilar in appearance and readily distinguishable. The trial court further found that the trademarks "BIC" and "LINDY" were prominently and repeatedly displayed on the pens and all packaging and promotional materials. The trial court therefore concluded that the two marks, Lindy's "Auditor's" and Bic's "Auditor's fine point," considered in the context in which they appeared in the marketplace, were not confusingly similar.

Lindy argues that the district court erred in determining whether the marks were confusingly similar without first finding as a threshold matter that the two marks were almost identical. Lindy insists that the court, thus, collapsed the inquiry as to similarity of the marks into the ultimate legal conclusion whether defendant's mark creates a likelihood of confusion. *See AMF, Inc.* v. *Sleekcraft Boats,* 599 F.2d at 350. Although Lindy is correct that it is improper to equate the two inquiries, *see id.,* we read the district court's opinion to reflect the appropriate examination of the marks' similarity. The two marks viewed in isolation are indeed identical, but their similarity must be considered in light of the way the marks are encountered in the marketplace and the circumstances surrounding the purchase of the pens. *Alpha Industries* v. *Alpha Steel Tube & Shapes,* 616 F.2d at 444; *AMF, Inc.* v. *Sleekcraft Boats,* 599 F.2d at 351; *Walt Disney Productions* v. *Air Pirates,* 581 F.2d 751, 759 (9th Cir. 1978), *cert. denied sub nom. O'Neill* v. *Walt Disney Productions,* 439 U.S. 1132 (1979); *see Vitarroz Corp.* v. *Borden, Inc.,* 644 F.2d 960, 967 (2d Cir. 1981).

We have thoroughly examined numerous exhibits reflecting the appearance of the pens, their packaging, and their promotional materials. The pens' dissimilar appearance, the dominance of the company marks and logos on the pens themselves and on all packaging and promotional material, and the dissimilar and distinctive packaging and advertisement designs overcome the similarity of the marks considered in isolation. Insofar as the marks are encountered in the marketplace permitting visual examination of the pens themselves or their packaging or promotional material, the district court correctly found that the marks are readily distinguishable in the context in which they are encountered.[4]

We agree with Lindy, however, that a different conclusion probably follows with respect to the telephone solicitation marketplace. Where prospective purchasers typically have little opportunity to see the product or promotional material, the dissimilarities in appearance have no ameliorating effect. The district court made no findings expressly concerning telephone sales of the PF and 460-F pens.[5] Evidence in the record indicates, however, that Bic

4. In *AMF, Inc.* v. *Sleekcraft Boats*, 599 F.2d 341, 351 (9th Cir. 1979), we noted that the use of a house mark and distinctive logo could reduce the likelihood of confusion, but concluded that the effect was negligible where the house mark was inconspicuous and the logo often absent. Here, by contrast, the marks are always accompanied by prominent house marks and logos, compared to which the marks are themselves inconspicuous.

5. From the evidence presented at trial on the operation of the various marketing channels, it appears that retail outlets order pens directly from manufacturers or through wholesalers, referring to the pens' manufacturer, model number and ink color, and then typically sell the pens from displays supplied by the manufacturer. Mail order and telephone marketing outlets order pens directly from the manufacturer, also by model number and color. Mail order outlets send flyers or envelope stuffers to prospective customers or place ads with order blanks in publications. The flyers or ads offer the pens in bulk at a substantial discount from list price. Telephone outlets call prospective customers and offer them pens and other office supplies in bulk at similar discounts.

sold a substantial number of PF pens for resale in the telephone solicitation market and that Lindy sold at least some pens to that market. Evidence further indicates that some consumers may have ordered pens from telephone sales outlets by the designation "Auditor's" rather than by brand, model number or point size.[6] On the basis of the record before us, we conclude that the finding that the marks were not confusingly similar is clearly erroneous with respect to the telephone solicitation marketplace. Some of the testimony given at trial appears to reflect a practice of telephone sales in the retail trade. Because the district court's findings do not address telephone sales in any detail, we are unable to determine whether retail telephone sales are common or whether retail telephone customers have the opportunity to view the pens or promotional material. The district court should make these determinations on remand.

B. Legal Standard for Likelihood of Confusion.

Lindy challenges the district court's legal standard for determining likelihood of confusion as unduly narrow. The court required Lindy to demonstrate a likelihood of confusion or deception "as to the origin of the goods." We agree with Lindy that the test for likelihood of confusion in this circuit is broader, embracing confusion as to the association between the goods or sponsorship of the allegedly infringing goods. *See Shakey's Inc.* v. *Covalt,* 704

6. Mr. Linden also testified that some of Lindy's accounts ordered pens by the name "Auditor's." Because these orders were placed directly with the pen's manufacturer, we do not believe that the practice, standing alone, supports a conclusion of likelihood of confusion with respect to purchases for resale. Our concern is with the likelihood of confusion attending consumer's purchases from these accounts.

F.2d at 431; *Carson Manufacturing Co.* v. *Carsonite International Corp.*, 686 F.2d at 670; *Golden Door, Inc.* v. *Odisho*, 646 F.2d at 349; *Alpha Industries* v. *Alpha Steel Tube & Shapes*, 616 F.2d at 443.

We conclude, however, that Lindy's claim that Bic's use of the mark "Auditor's" creates a likelihood of confusion as to Lindy's sponsorship of, or association with, Bic's PF pens must nonetheless fail. The district court held that Lindy had not shown that its mark "Auditor's" had acquired secondary meaning. Secondary meaning is a question of fact. *See Levi Strauss & Co.* v. *Blue Bell, Inc.*, 632 F.2d 817, 821 (9th Cir. 1980). The district court's finding that "Auditor's" did not have secondary meaning is not clearly erroneous. *See Faberge, Inc.* v. *Saxony Products, Inc.*, 605 F.2d 426, 428 (9th Cir. 1979). Lindy's mark is weak. In the absence of secondary meaning, we do not see how Lindy could prevail on its sponsorship confusion claim. *See HMH Publishing Co.* v. *Brincat*, 504 F.2d 713, 718-19 (9th Cir. 1974).[7]

C. Necessity for Remand.

We affirm the district court's findings that Lindy's mark is weak and without secondary meaning, that there is no evidence of actual confusion, that Bic adopted the designation "Auditor's fine point" without intent to capitalize on Lindy's goodwill, and that purchasers tend to use such ordinary caution as is reasonable with respect to inexpensive, disposable goods. We also affirm the district court's finding that in the context of retail over-the-counter and

7. Lindy's only evidence on this aspect of its claim was the speculative testimony of one of its customers that had she seen a Bic PF pen prior to learning of Lindy's lawsuit she might have assumed that Bic and Lindy had merged.

mail order sales, the marks as encountered in the marketplace are dissimilar. We reverse the district court's finding that Bic and Lindy do not sell the PF and 460-F pens in the same channel of trade, and reverse the finding that the marks are dissimilar insofar as it applies to the telephone sales marketplace.

We now turn to the district court's conclusion that Bic's use of the word "Auditor's" on its PF pens creates no likelihood of confusion. On the basis of the record before us, we have no difficulty affirming the district court's conclusion that Lindy has failed to show a likelihood of confusion with respect to retail over-the-counter sales, mail order sales and sales by the manufacturer to intermediaries. Our examination of the record persuades us, however, that Lindy has probably established likelihood of confusion with respect to the telephone sales market. Because the district court failed to make detailed factual findings with respect to that particular market, we prefer to vacate that portion of the district court's opinion and remand for further proceedings. We find it difficult, on the record before us, to determine the extent to which Lindy sold 460-F pens to the commercial telephone sales trade during the relevant time periods, or the extent to which telephone sales occur in the retail trade. It is the district court who heard the testimony and assessed the credibility of the witnesses. Moreover, the district court has the benefit of a more complete record than that before us on appeal. We emphasize that it is Lindy who bears the burden of proof. *Golden Door, Inc.* v. *Odisho,* 646 F.2d at 349. On remand, the district court should make additional findings of fact with respect to the telephone sales market or markets, and proceed to make a new determination of the similarity of the marks

as they are encountered in the telephone sales marketplace before determining whether Lindy has established a likelihood of confusion.

D. Incontestability and Fair Use.

The district court found that Lindy's mark had become incontestable under the provisions of 15 U.S.C. § 1065 (1976). Lindy argued below that the incontestability of its mark, without more, entitled it to prevail on its infringement claim under the provisions of 15 U.S.C. § 1115(b) (1976).[8] Assuming, without deciding, that incontestability entitled Lindy to prevail in the absence of a showing of likelihood of confusion, the district court ruled that Bic had established a statutory enumerated defense to a claim of infringement of an incontestable mark, in that Bic's use of the word "Auditor's" was "a use, otherwise than as a trade or service mark . . . of a term or device which is descriptive of and used fairly and in good faith only to describe to users the goods and services of such party. . . ." 15 U.S.C. § 1115(b)(4) (1976). Lindy renews on appeal its

8. 15 U.S.C. § 1115(b) 1976) provides, in pertinent part:

> (b) If the right to use the registered mark has become incontestable under section 1065 of this title, the registration shall be conclusive evidence of the registrant's exclusive right to use the registered mark in commerce on or in connection with the goods or services specified in the affidavit filed under the provisions of said section 1065 subject to any conditions or limitations stated therein except when one of the following defenses or defects is established:
>
> . . .
>
> (4) That the use of the name, term, or device charged to be an infringement is a use, otherwise than as a trade or service mark, of the party's individual name in his own business, or of the individual name of anyone in privity with such party, or of a term or device which is descriptive of and used fairly and in good faith only to describe to users the goods or services of such party, or their geographic origin . . . .

argument that the incontestable status of its mark entitles it to an injunction in order to preserve its exclusive right to use its mark on ballpoint pens. The law of this circuit is otherwise. Incontestability of a mark may protect the registrant's mark from cancellation, but is of no offensive use. *Prudential Insurance Co.* v. *Gibraltar Financial Corp.*, 694 F.2d 1150, 1153 (9th Cir. 1982), *cert. denied*, —— U.S. ——, 103 S.Ct. 3638 (1983); *see Tillamook County Creamery Association* v. *Tillamook Cheese and Dairy Association*, 345 F.2d 158, 163 (9th Cir.), *cert. denied*, 382 U.S. 903 (1965). There can be no liability for trademark infringement, even where a mark has attained incontestable status, in the absence of likelihood of confusion. *See Prudential Insurance Co.* v. *Gibraltar Financial Corp.*, 694 F.2d at 1153.

Relying on the district court's ruling on the so-called fair use defense, however, Bic invokes its fair use of Lindy's mark to immunize it from liability for infringement even where likelihood of confusion has been shown. This court has never adopted so broad an interpretation of the fair use defense, and we decline to do so here. We have recognized that liability for infringement may not be imposed for using a registered trademark in connection with truthful comparative advertising. *See SSP Agricultural Equipment, Inc.* v. *Orchard-Rite Ltd.*, 592 F.2d 1096, 1103 (9th Cir. 1979); *Saxony Products, Inc.* v. *Guerlain, Inc.*, 513 F.2d 716, 722 (9th Cir. 1975); *Smith* v. *Chanel*, 402 F.2d 562, 563 (9th Cir. 1968). The use Bic is making of the mark "Auditor's" is not such a use. Nor is Bic using the word merely to describe the size of its PF pen's ballpoint.[9] We conclude that Bic is making a trademark use of the word "Auditor's," and is not immune from liability for infringement on the

9. Bic conceded that it uses the word "Auditor's" to distinguish its PF pen from other Bic pens with the same size ballpoint.

basis of the fair use defense. To the extent that the district court's ruling on this issue may be deemed applicable to Lindy's claim for infringement based on a likelihood of confusion, we reverse that ruling.[10]

II. Breach of Contract.

Lindy asserted, as an alternate theory for recovery, a purported settlement agreement comprising correspondence between Bic's and Lindy's attorneys. In 1965, prior to obtaining federal trademark registration, Lindy discovered that Bic was selling ballpoint pens with "auditor's extra fine point" stamped on their barrels. Lindy wrote to Bic demanding that it cease using the word "Auditor's".[11] Bic referred the letter to outside counsel. In the ensuing exchange of letters, Bic maintained that its use of the word was merely descriptive of a type of pen and Lindy insisted

10. Because of our disposition of this issue, we need not reach Lindy's argument that Bic is not entitled to assert the defense because its use of the word "Auditor's" is intended to deceive consumers by indicating that the PF pen has an extra-fine point.

11. The district court found that Lindy had been vigilant in policing its mark. The record supports this finding. According to Lindy's president, Sydney Linden, the company's policy has been to claim trademark rights and obtain trademark registration for all names used in connection with its pens. Lindy holds federal trademark registrations for "Utility," "Legal Copy," "2'n'1," "Shorty-shorty," and "Utractapen," and has claimed proprietary trademark rights in "Steno" pen, "Reverse-A-Point" pen, "Exec-Sec" pen, "Fast-Riter" pen and "Clear" pen. Lindy has diligently policed its claimed rights by requesting other manufacturers to cease using words that Lindy has adopted as trademarks. The record indicates that various competitors acceded to Lindy's requests. Between 1965 and 1969, Lindy wrote letters asserting its exclusive rights to the use of the word "Auditor's" in connection with the sale of ballpoint pens to Bic, Scripto, Eversharp Pen Company and Lee Specialty Company. All four companies disputed Lindy's claims but agreed to cease using the word "Auditor's." Two other businesses agreed to refrain from using "Auditor's" after Lindy filed lawsuits against them. In 1977 and 1978, Lindy persuaded the Major Line Company and the Richard Best Company to cease imprinting "Auditor"s on ballpoint pens.

that it owned the exclusive right to use "Auditor's" in connection with pens. Ultimately, Bic agreed to replace the word "Auditor's" with another descriptive word once it had exhausted its inventory. Subsequently, Lindy noticed two retail advertisements for Bic pens that included the word "Auditor's" and wrote to Bic to complain. Bic responded that the retail advertisers had apparently used the word on their own initiatives and without Bic's authorization. The district court examined the correspondence and determined that it did not constitute a settlement agreement and that the record was otherwise devoid of any evidence of a binding agreement precluding Bic from using the word "Auditor's." We will uphold this finding unless it is clearly erroneous. *See Collins* v. *Thompson,* 679 F.2d 168, 172 (9th Cir. 1982). We have examined the correspondence, and found nothing therein manifesting Bic's concession of any binding limitations on its use of "Auditor's." The parties' conduct during the period of the purported agreement manifests no such concession. We affirm the district court's finding that Bic and Lindy did not enter into a settlement agreement precluding Bic using Lindy's mark.

Conclusion

We affirm the district court's conclusion that there is no likelihood of confusion and, hence, no liability for infringement, with respect to Bic's use of the mark "Auditor's" in the mail order and over-the-counter retail sales markets. We reverse the district court's conclusion that there is no likelihood of confusion in the telephone sales market or markets, and remand the trademark infringement claim for further proceedings with respect to telephone sales. We affirm the judgment of the district court on Lindy's other claims. Affirmed in part, Reversed in part and Remanded.

APPENDIX C

796 FEDERAL REPORTER, 2d SERIES

LINDY PEN CO., INC.
and Blackfeet Plastics, Inc.,
Plaintiffs-Appellants,
v.
BIC PEN CORPORATION,
Defendant-Appellee.

No. 84-6324.

United States Court of Appeals,
Ninth Circuit.

Argued and Submitted April 14, 1986.
Decided July 31, 1986.

Appeal from the United States District Court
for the Central District of California

Before HUG and FLETCHER, Circuit Judges, and INGRAM,* District Judge.

FLETCHER, Circuit Judge:

Plaintiff Lindy Pen Co. (Lindy) appeals the district court's second dismissal of its claim against Bic Pen Corp. (Bic) for trademark infringement. On remand from this court, the district court made new finding of fact and concluded there was no likelihood of confusion of Lindy's and Bic's "Auditors" pens in the telephone sales market. We reverse and remand to the district court for issuance of an injunction and a determination of damages.

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* Hon. William A. Ingram, United States District Judge for the Northern District of California, sitting by designation.

BACKGROUND

Lindy has used the word "Auditor's" in connection with its 460-F model fine point ballpoint pen since 1955. It registered the trademark "Auditor's" in 1966. Since 1979, Bic has imprinted the words "Auditor's fine point" on its model PF fine point ballpoint pen. Lindy sued Bic in 1980 claiming trademark infringement.

Following a bench trial, the district court entered judgment for Bic on all claims. *Lindy Pen Co. v. Bic Pen Corp.*, 550 F.Supp. 1056, 1062 (C.D.Cal. 1982). Lindy appealed. We reversed the district court's conclusion that there is no likelihood of confusion of the two pens in the telephone sales market and remanded the case to the district court for additional proceedings with respect to telephone sales. 725 F.2d 1240, 1249 (9th Cir. 1984), *cert. denied*, __ U.S. __, 105 S.Ct. 955, 83 L.Ed.2d 962 (1985).

On remand, the district court received no new evidence but made additional finding of fact and conclusions of law with respect to telephone sale. The court identified two submarkets comprising the telephone sales market — the telephone solicitation submarket and the telephone order submarket. The court found that Lindy had a minimal presence in the telephone solicitation market, but that both Lindy and Bic pens were sold in the telephone order market. The court then evaluated the "foundational facts" against those set out in prior Ninth Circuit cases and concluded that Lindy had failed to establish a likelihood of confusion. The district court again ruled in favor of Bic, and Lindy timely appealed.

ANALYSIS

1. *Propriety of Analyzing All the Foundational Facts*

[1] Lindy first claims that given the district court's findings that both Bic and Lindy pens are sold in the telephone order market and that the marks are confusingly similar when initially encountered, it was improper for the court to proceed to consider other foundational facts. Instead, Lindy argues, the court should have followed *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341, 348 (9th Cir. 1979), and concluded automatically that there was a likelihood of confusion. This issue as to the correct test for trademark infringement is a question of law reviewable de novo.

[2] We reject Lindy's argument. The *AMF* court, in a footnote, made it clear that if the goods compete for sales and the marks are "sufficiently similar that confusion can be expected," at least one other factor, the alleged infringer's intent in adopting the mark, must be weighed. *See id.* at 348 n.9. The *AMF* court in our view implicitly incorporated consideration of other foundational factors. Our view is shared by more recent cases, including the prior appeal in this case, in that all have considered a range of factors in determining the likelihood of confusion. *See, e.g., Park 'N Fly, Inc. v. Dollar Park and Fly, Inc.*, 782 F.2d 1508, 1509 (9th Cir. 1986); *Lindy Pen Co.*, 725 F.2d at 1243-44; *Carson Manufacturing Co. v. Carsonite International Corp.*, 686 F.2d 665, 670 (9th Cir. 1981), *modified on rehearing on other grounds*, 688 F.2d 647 (9th Cir. 1982) (en banc), *cert. denied*, 460 U.S. 1052, 103 S.Ct. 1499, 75 L.Ed.2d 930 (1983); *Alpha Industies, Inc. v. Alpha Steel Tubes and Shapes, Inc.*, 616 F.2d 440, 443-44 (9th Cir. 1980). In determining whether the goods "compete for sales" and whether "the marks are sufficiently similar that

confusion can be expected," a court appropriately inquires into factors such as the strength of the mark, evidence of actual confusion, marketing channels used, and degree of purchaser care. These are precisely the foundational facts evaluated and considered by later courts. *AMF* did not set out a separate "automatic" rule, but rather expressed the obvious conclusion that a likelihood of confusion is more readily found when the goods compete and the marks are very similar. The district court properly considered all the factors in determining the likelihood of confusion.

2. *Foundational Fact of similarity*

On remand, the district court found that both Bic and Lindy pens are sold through the telephone order market, and that some telephone customers "simply ask for an 'Auditor's' pen." The district court found that Lindy's "Auditor's" mark and Bic's "Auditor's Fine Point" mark "are confusingly similar when initially encountered in the telephone sales market, since the purchaser is not able to view the product at the time of purchase." However, the fact that telephone purchasers could view the pens when they were delivered following a purchase negated or cured the initial similarity. Lindy contends that this "ex post facto confusion rectification" cannot negate or cure the initial confusion similarity of the marks. The district court's finding as to a foundational fact is reviewed under the clearly erroneous standard. *Lindy Pen Co.*, 725 F.2d at 1243.

Although we have found no cases involving a post-sale "cure" of initial similarity between marks, *Dreyfus Fund, Inc. v. Royal Bank of Canada*, 525 F.Supp. 1108 (S.D.N.Y. 1981), is analogous. In *Dreyfus*, the defendant bank used a lion in a series of advertisements that allegedly infringed Dreyfus's registered marks

containing pictures of a lion. *Id.* at 1111. Dreyfus preliminarily sought to enjoin the bank from continuing its advertising campaign. *Id.* at 1110-11. The court stated:

> The Bank assumes in its arguments that the statutory requirement of consumer confusion is one that requires a showing that consumers will confuse the services of the Bank and Dreyfus, and will remain confused throughout the process of actually purchasing those services. This is not so. The law requires only that some form of confusion be proved likely, not that it be shown to persist and to cause lost sales. The Lanham Act is broadly aimed at protecting the effectiveness of marks and, as a result, courts are regularly called upon to decide whether to enjoin the use of similar marks where a recognized form of confusion might be resolved by close customer scrutiny or attention to distinguishing words or phrases.

Id. at 1122 (citations omitted). The court found that the ads could lead to customer confusion, *id.* at 1122-23, and granted the motion for a preliminary injunction. *Id.* at 1125-26.

Neither Bic nor the district court points to any evidence in the record showing that post-sale inspection is likely to uncover and rectify prior confusion. When pens are delivered, a customer might move them automatically to a supply room without detailed inspection, or the person receiving the delivery might not be the same individual who placed the telephone order.

Even if a customer realized at the time of delivery that the pens delivered were not the pens supposedly ordered, the customer might decide not to bother to return and exchange the pens at that late stage.

[3] We thus conclude that post-sale inspection cannot negate or cure initial similarity. We hold that the district court's finding on the foundational fact as to the similarity of the marks is clearly erroneous. In fact, the district court has found that the marks are virtually identical when encountered in the telephone order market.

3. *Conclusion as to Likelihood of Confusion*

On remand, the district court concluded that Lindy failed to establish a likelihood of confusion. We review this conclusion under the clearly erroneous standard. *Levi Strauss & Co. v. Blue Bell, Inc.*, 778 F.2d 1352, 1355 (9th Cir. 1985) (en banc). Since the district court's finding on the foundational fact of similarity is clearly erroneous, we must reweigh all the foundational facts to determine whether the district court was clearly erroneous in concluding that Lindy had failed to establish a likelihood of confusion.

[4] Two key factors weigh in Lindy's favor: Lindy and Bic pens compete in the telephone order market, and they are virtually identical when encountered in that market. These two factors indicate a likelihood of confusion in the telephone order market, and we hold that the district court's conclusion to the contrary is clearly erroneous. The foundational factors that weight in Bic's factor — Lindy's mark is weak, no actual confusion was shown, telephone purchasers exercise a greater degree of care, Bic did not intend to capitalize on Lindy's mark, and there is no likelihood either party will expand its product lines — are not sufficient to

overcome the overwhelming likelihood of confusion resulting from the direct competition of pens with virtually identical marks. *See Park 'N Fly*, 782 F.2d at 1509 (where marks are virtually identical, services provided are identical, and marketing channels are convergent, there is a likelihood of confusion despite no evidence of actual confusion, weak mark, and no intent to capitalize).

4. *Incontestability of Lindy's Mark*

In our prior opinion, relying on Ninth Circuit precedent, we stated: "Incontestability of a mark may protect the registrant's mark from cancellation, but is of no offensive use." 725 F.2d at 1247. The Supreme Court recently overruled this precedent in *Park N'Fly, Inc. v. Dollar Park and Fly*, 469 U.S. 189, 105 S.Ct. 658, 83 L.Ed.2d 582 (1985). The Court, resolving a conflict between the Seventh and Ninth Circuits, held "that the holder of a registered mark may rely on incontestability to enjoin infringement and that such an action may not be defended on the grounds that the mark is merely descriptive." *Id.*, 105 S.Ct. at 665. Because we previously ruled that Bic could not succeed on the fair use/descriptive mark defense, 725 F.2d at 1248, the Supreme Court's decision in *Park 'N Fly* does not affect the result in this case.

CONCLUSION

We reverse the district court. We conclude that Lindy has established a likelihood of confusion in the telephone order market and, accordingly, that Bic has infringed Lindy's trademark. We remand the case to the district court with instructions to enter an order enjoining Bic from using the work "Auditor's" on or in connection with its pens. We additionally instruct the district court to order an accounting and to award damages and other relief as appropriate.

REVERSED AND REMANDED.

APPENDIX D

FILED
DEC 15 1989
Clerk, U.S. District Court
Central District of California
By /s/ Deputy

UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

Case No. CV 80-10-WDK(Ex)

LINDY PEN COMPANY and
BLACKFEET PLASTICS, INC.,
Plaintiffs,
v.
BIC PEN CORPORATION,
Defendant.

SUPPLEMENTAL ORDER RE DAMAGES

In 1986, the United States Court of Appeals for the Ninth Circuit found that plaintiffs had established a likelihood of confusion in the telephone order submarket for Lindy "Auditor's" pens and remanded to this Court for a determination of the appropriate relief. *Lindy Pen Co. v. Bic Pen Corp.*, 796 F.2d 254, 257 (9th Cir. 1986). On August 7, 1987, this Court issued an Order Re Remand, directing the parties to submit written statements of position regarding the plaintiff's entitlement to monetary relief as a result of the defendant's infringement. The plaintiffs requested an award of their attorney's fees, their damages, and the defendant's profits under 15 U.S.C. §1117(a).

On August 1, 1989, this Court issued an Order Re Damages and denied the plaintiffs' request for recovery of their attorney's fees and the defendant's profits because the defendant had no intent to capitalize on the plaintiffs' mark. Although the Court found that the plaintiffs had established the fact of damages, the Court found that the plaintiffs' assessment of their damages under section 1117(a) required further analysis. Accordingly, the Court directed the plaintiff to recalculate its damages resulting from the defendant's infringement in the telephone order submarket, and gave the defendant an opportunity to respond. The parties have now submitted their responses to the Court's August 1, 1989 Order.

The plaintiffs may prove their damages in either of two ways: by proof of the plaintiffs' actual damages, or lost profits from the sale of Lindy "Auditor's" pens in the telephone order submarket, or, if actual damages are unclear, by proof of the defendant's unjust enrichment in the form of its profits from the sale of Bic "Auditor's fine point" pens in the telephone order submarket. *Bandag, Inc. v. Al Bolser's Tire Stores, Inc.*, 750 F.2d 903, 918 (Fed.Cir. 1984). The plaintiffs have again attempted to prove both measures of recovery.

To establish their lost profits as a measure of damages, the plaintiffs must make a "prima facie showing of reasonably forecast profits." 2 J. McCarthy, Trademarks and Unfair Competition §30:27, at 511; *see also Ramada Inns, Inc. v. Gadsden Motel Co.*, 804 F.2d 1562, 1565 (11th Cir. 1986) (quoting *Bangor Punta Operations v. Universal Marine Co.*, 543 F.2d 1107, 1110-11 (5th Cir. 1976)); *Borg-Warner Corp. v. York-Shipley, Inc.*, 293 F.2d 88, 95 (7th Cir.), *cert. denied*, 368 U.S. 939 (1961); *Burndy Corp. v. Teledyne Industries, Inc.*, 584 F.Supp. 656, 664 (D.C. Conn.) ("Plaintiff is not held to meticulous,

strict proof of precise damages since the difficulty of proof is great."), *aff'd*, 748 F.2d 767 (2d Cir. 1984). Although the plaintiffs are not required to prove their damages with exactitude, there must be some reasonable basis on which the Court may frame a remedy. *See, e.g., Foxtrap, Inc. v Foxtrap, Inc.*, 671 F.2d 636, 642 (D.C. Cir. 1982) ("any award based on plaintiff's damages requires some showing of actual loss"); *Burndy Corp. v. Teledyne Industries, Inc.*, 584 F.Supp. at 664 ("No assessment of damages is authorized if it is not based on actually proven damages."); *Invicta Plastics (USA) Ltd. v. Mego Corp.*, 523 F.Supp. 619, 624 (S.D.N.Y. 1981) ("damages will not be awarded in the absence of credible evidence demonstrating injury to the plaintiff from defendant's sales."); *Vuitton Et Fils S.A. v. Crown Handbags*, 492 F.Supp. 1071, 1077 (S.D.N.Y. 1979) "The discretionary award of either damages or profits assumes an evidentiary basis on which to rest such an award. Without such a basis there can be no recovery."), *aff'd mem.*, 622 F.2d 577 (2d Cir. 1980). The plaintiffs cannot meet their burden of proof by mere speculation. *Burndy Corp. v. Teledyne Industries, Inc.*, 584 F.Supp. at 664 (citing *Story Parchment Paper Co. v. Patterson Parchment Paper Co.*, 282 U.S. 555, 562-64 (1931)); *see also Donsco, Inc. v. Casper Corp.*, 587 F.2d 602, 607 (3d Cir. 1978).

Despite the Ninth Circuit's finding that the plaintiff had demonstrated infringement only in the telephone order submarket, *see Lindy Pen Co. v. Bic Pen Corp.*, 796 F.2d at 257, and this Court's express direction to compute lost sales in the telephone order submarket, *see* Order Re Damages at 10-11, the plaintiffs have failed to segregate sales of Lindy "Auditor's" pens in the telephone order submarket from the total sales of Lindy "Auditor's" pens. Despite access to proof, such as Lindy's customer lists, and

extensive discovery on the issue of damages, the plaintiffs have failed even to provide the Court with a reasonable basis by which to estimate telephone order sales in the telephone order submarket. The Court cannot select an arbitrary percentage of total sales to represent telephone order sales, for an award based on such a figure would be mere speculation. Nor can the Court accept the plaintiffs' calculation of damages, because that calculation includes sales of Lindy "Auditor's" pens in which no likelihood of confusion existed. As a result, the Court can only find that the plaintiffs have failed to sustain their burden of proving reasonably forecast profits.

As an alternative measure of damages, which was addressed by the Court's August 1, 1989 Order, the plaintiffs may attempt to prove the defendant's profits from the sale of Bic "Auditor's fine point" pens in the telephone order submarket. To establish the defendant's profits as a measure of recovery, the plaintiffs must only establish the defendant's sales of the *infringing* article. *Mishawaka Rubber & Woolen Manufacturing Co. v. S.S. Kresge Co.*, 316 U.S. 203, 206 (1942). The defendant must then prove any elements of cost or deduction. 15 U.S.C. section 1117(a).

The plaintiffs' burden in this case, under this alternative measure of calculation, is to prove the defendant's sales of the infringing article - the sales of Bic "Auditor's fine point" pens in the telephone order submarket. Rather than attempt to meet this burden, however, the plaintiffs offer only a calculation of the defendant's total sales of bic "Auditor's fine point" pens. Because the plaintiffs have failed to establish the defendant's of Bic "Auditor's fine point" pens in the telephone order submarket, the Court cannot base an award on the plaintiff's alternative method of calculating damages.

For the reasons set forth above, the Court hereby DENIES the plaintiffs' request for an award of damages.

/s/ William D. Keller
United States District Judge

DATED: December 15, 1989.

APPENDIX E

Title 15, U.S.C., §1117. Recovery for Violation of Rights

(a) Profits; damages and costs; attorney fees

When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office, or a violation under section 1125(a) of this title, shall have been established in any civil action arising under this chapter, the plaintiff shall be entitled, subject to the provisions of sections 1111 and 1114 of this title, and subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action. The court shall assess such profits and damages or cause the same to be assessed under its direction. In assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed. In assessing damages the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. If the court shall find that the amount of recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. Such sum in either of the above circumstances shall constitute compensation and not a penalty. The court in exceptional cases may award reasonable attorney fees to the prevailing party.

(b) Treble damages for use of counterfeit mark

In assessing damages under subsection (a) of this section, the court shall, unless the court finds extenuating circumstances, enter judgment for three times such profits or

damages, whichever is greater, together with a reasonable attorney's fee, in the case of any violation of section 1114(1)(A) of this title or section 380 of Title 36 that consists of intentionally using a mark or designation, knowing such mark or designation is a counterfeit mark (as defined in section 1116(d) of this title), in connection with the sale, offering for sale, or distribution of goods or services. In such cases, the court may in its discretion award prejudgment interest on such amount at an annual interest rate established under section 6621 of Title 26, commencing on the date of service of the claimant's pleadings setting forth the claim for such entry and ending on the date such entry is made, or for such shorter time as the court deems appropriate.

(As amended Oct. 12, 1984, Pub.L. 98-472, Title II, §1503(2), 98 Stat. 2182; Nov. 16, 1988, Pub.L. 100-667, Title I, §129, 102 Stat. 3945.)